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SENSITIVE
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EUR/ERA FOR BEH/ROCKWELL
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TAGS: EAIR ECON ENRG EU EUN EWWT KGHG SENV TRGY
TSPL
SUBJECT: CLIMATE AND ENERGY PACKAGE PASSES COMMITTEE IN
EUROPEAN PARLIAMENT

¶1. (SBU) Summary: The European Parliament's Environment Committee (ENVI) on October 7 passed legislation on the revisions to the Emissions Trading Scheme (ETS), Member State burdens to meet the EU's emissions reduction goals, and the implementation of carbon capture and storage (CCS). These three proposals, combined with the Renewables Directive passed by the Industry Committee (ITRE) in September, make up the European Commission's Climate and Energy Package released on January 23, 2008. The decisions taken by the Committees on each of the pieces of legislation do not represent the final text of any of the legislation, but rather the negotiating position the Parliament will take in its discussions with the Council of Member States. Although both the burden sharing and CCS directives passed smoothly without contention, the ETS revisions faced substantial opposition from the EPP-ED group, from which several MEPs fundamentally disagreed with the entire suite of compromise amendments, much the same as with the Renewables Directive. The Parliament continues to remain committed to completing the Package by the end of the year, as wished by the French Presidency of the EU. Both the Transport/Energy and Environment Councils in October reaffirmed the French commitment, but neither provided details as to how to resolve divisions within the EU. End summary.

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ETS Revisions pass, but not without opposition
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¶2. (SBU) As expected, the ENVI Committee made several changes to the revisions to the Emissions Trading Scheme (ETS), many of which focused on whether or not an international climate agreement will be reached. Under ETS, emissions allowances will either be given for free or auctioned off, with the ratio between the two changing over time. The Commission originally proposed that beginning in 2013, 80% of the available allowances will be given for free, with that value decreasing annually until 2020, when no free allocation will be permitted. The ENVI Committee increased this starting value to 85%. The EU's position for such a system is that eventually, all major economies will develop comparable cap and trade systems, at which point a global network of interlinked systems can be created. Therefore, the ENVI Committee added wording that when countries ratify an international agreement on climate change; their allowances should be acceptable for all emissions trading systems. However, in the absence of an international agreement, in order to protect the industries within the EU from competitors operating in less strict regulatory environments,

the Parliamnt dictated that the Commission will examine both the possibility of allowing those affectd sectors to continue to receive free allowances or to include importers of products in thos sectors in the ETS. (Note: This concept of a border carbon tax is one of the most contentious in the debates over the ETS. However, it was ultimately decided not to set forth rules until after the post-2012 agreement negotiations conclude. The hope in Europe is that all countries will accede to an international agreement, obviating the need for any carbon tax. End note.)

¶3. (SBU) The ENVI Committee modified the previously agreed allocation for the aviation sector from 85% free-of-charge and 15% to be auctioned, reducing it to 80% free and 20% auctioned. In addition to including aviation in the EU-ETS, the committee also passed amendments calling for shipping to be included in the scheme no later than 2015 and requiring Member States to include emissions from shipping in efforts to meet Community reduction commitments in the meantime. During the Transport and Energy Council in Luxembourg on October 9, the Council added its support; issuing a conclusion on the aviation sector in the EU-ETS and underlining that the directive passed by Parliament on July 8 applies to all aircraft operators of all States providing services to, from and within the EU, but omitted any mention of shipping. It is not yet clear if non-EU carriers will be eligible for free credits. DG Environment is responsible for developing the details behind the policy and currently is in that process.

¶4. (SBU) Several in Parliament see the work on the Climate and Energy Package as the EU's negotiating position for a post-2012 agreement and they were quick to add wording which



is directly dependent on the success or failure of the international community. Several Parliamentarians, including Avril Doyle (Ire, EPP-ED), the Rapporteur for the ETS Revisions, believe that in order to bring developing countries on board in Copenhagen, the developed world will need to finance the development and deployment of green technologies and adaptation methods. To that end, ENVI proposed that 50% of the proceeds from the ETS auctions go to a dedicated international fund to assist developing countries that have ratified an international agreement. This fund will be further broken down, with one quarter to combat deforestation, one quarter to reduce emissions in and to transfer technology to developing countries, and one half to facilitate adaptation to the effects of climate change. Domestically, the remainder of the funds will be allocated to developing renewable technologies, increasing energy efficiency, and developing carbon capture and storage (CCS) capabilities in the EU. 30% emissions cuts for the EU with an international agreement

¶5. (SBU) The ENVI Committee left largely intact the Commission's proposals on Member States GHG emissions reductions, but went one step further, proposing additional reductions if an international agreement is reached. Specifically, if an agreement is reached under the UNFCCC negotiations, the EU's 2020 emissions reduction target would increase from 20% of 1990 levels to 30%, and the Parliament has instructed Member States to develop action plans in preparation for this eventuality. (Note: unlike previous statements and proposals, this increase does not require a similar commitment from other developed countries, but did note that developed countries need to undertake commitments of 25-40% reductions in 2020. End note.) Additionally, in looking beyond 2020, the Parliament added a provision for an EU wide reduction of at least 50% by 2035 and 60-80% by 2050 as compared to 1990 levels; the Environment Council took this even farther, calling for reductions of 80-95% by 2050. The Parliament provided an opportunity for collaboration by allowing Member States exceeding their targets to sell the excess emissions reductions to Member States falling short. However, the Commission must approve any transaction, and the

proceeds from the transaction must be applied to investments in energy efficiency, renewable energy development, or climate-friendly transport by the selling Member State.

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Coal plants targeted to be CCS capable in 2015
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¶6. (SBU) As with the burden sharing proposals, the ENVI Committee made few large changes to the text of the Commission's directive on the use of CCS, always considered the least contentious of the four Climate and Energy Package directives. The Parliament reinforced the Commission's proposal of 12 CCS pilot plants to be built around Europe. Additionally, the Parliament reinforced its commitment to limit the use of coal to cleaner applications by requiring all electricity-generating plants with a capacity greater than 300 MW to limit emissions to 500 grams CO2 per kWh beginning in 2015. This is often referred to as the "Schwarzenegger Amendment," having gained inspiration from a similar measure introduced by Governor Schwarzenegger for the use of CCS on coal power plants in California. ENVI MEP Chris Davies (UK, ALDE), Rapporteur for the CCS directive, worked closely with MEP Doyle to connect CCS and ETS. Under the ETS revisions, the Parliament passed Amendment 500, which provides for revenues of up to 500 million allowances to be applied to CCS development. Experts assess this to be valued at up to 10 billion Euros. (Note: MEP Davies' assistant responsible for the Climate and Energy Package explained to industry and USEU EconOffs that this money will not be available without a valid demonstration of capture and storage, effectively acting as a rebate. Some industry officials do not believe this is sufficient incentive to invest in the technology. End note.)

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Negotiation with Council still to come
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¶7. (SBU) These decisions taken by Parliament do not represent the final text on any pieces of legislation, rather they will



serve as Parliament's negotiating position in discussions with the Council through the end of the year. The French Presidency continues to press for completion in December, but as more divisions present themselves, success becomes less and less likely. Members of the Parliament's Industry Committee Secretariat expressed skepticism at the possibility of completion by year end; particularly that the text of the ETS revisions as adopted by Parliament was too far apart from the council's position. As we expected, the CCS directive was the least contentious, and it would not be surprising if it continues to proceed smoothly through negotiations. However, negotiations on the other three proposals, Emissions Trading Scheme, Burden Sharing, and Renewables, are poised to be very contentious and potentially impossible to complete by December. The stance taken by the EPP-ED just before the ETS vote reinforced the internal disagreements in Parliament, which were also raised during the debates over the Renewables Directive. Specifically, the EPP-ED contends Parliament's decisions would impose a competitive disadvantage on European industry compared to U.S. and Chinese firms, resulting in carbon leakage and job losses.

¶8. (SBU) The conclusions reached by both the Transport/Energy Council on October 9 and the Environment Council on October 20 reaffirmed the French Presidency's target adoption date of December, 2008. However, neither addressed the current divisions amongst the Member States and the prospects for coming to an agreement. Several Member States, including Poland, Italy, Austria, and the UK, have threatened to derail the discussions, claiming they will be unable to meet the goals set forth by the Commission. Poland claims that undertaking these efforts will harm its economy, and it wants to reconsider the specific proposals. More recently, Italy's

Environment Minister stated after the Environment Council that the current package is "untenable" and that "significant changes are needed," elaborating on Prime Minister Berlusconi's earlier statement that Italy would seek to veto the legislation if its concerns about Italian industry and economy were not addressed.

¶9. (SBU) The financial crisis brought a new angle to the debate, with many claiming that the current global economic state brings the viability of many of these climate efforts into question. Czech MEP Miroslav Ouzky, the Chairman of the ENVI Committee, publicly stated on October 8 that he believes that the Council and the Parliament are too far apart and that the EU is heading for a deal at the end of 2009, not ¶2008. Climate, he claims, is quickly becoming a casualty of the global financial problems.

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